



Maryland Health Benefit Exchange Financial Sustainability Advisory Committee

October 12, 2011

Agenda

- Introductions
- Project Overview
- Exchange Financing Overview
- Market Factors: Enrollment and Premium
- Administrative Factors
- Next Steps

Introductions

- Patrick Holland, Managing Director
 - Founding CFO of MA Health Connector
 - Extensive private health carrier and provider experience focused on network contracting, financial management, and negotiation strategy
- James Woolman, Senior Consultant
 - Manager of Finance and Analytics at MA Health Connector
 - Prior experience includes commercial network contracting strategy and Medicaid finance and policy development



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Project Overview

- Background development on exchange financing concepts – revenues & expenses
- Exchange cost drivers
- Fraud, waste, and abuse policies
- Exchange financing options

Project Timeline

Meeting Date	Discussion Topics
October 12, 2011	<ul style="list-style-type: none"> • Project Overview • Overview of Exchange Financing • Revenue and Expense Drivers
October 17, 2011	<ul style="list-style-type: none"> • Introduce Options for Financing the Exchange
October 24, 2011	<ul style="list-style-type: none"> • Discuss Options for Financing the Exchange • Maryland Exchange Cost Estimates • <i>Policies to Prevent Fraud, Waste, and Abuse</i>
November 2, 2011	<ul style="list-style-type: none"> • Discuss key elements of initial draft report and receive committee feedback
November 7, 2011	<ul style="list-style-type: none"> • Deliver Final Vendor Report

Today's Goal

- Provide background overview of Exchange financing concepts and requirements
- Discuss key Exchange revenue and expense drivers



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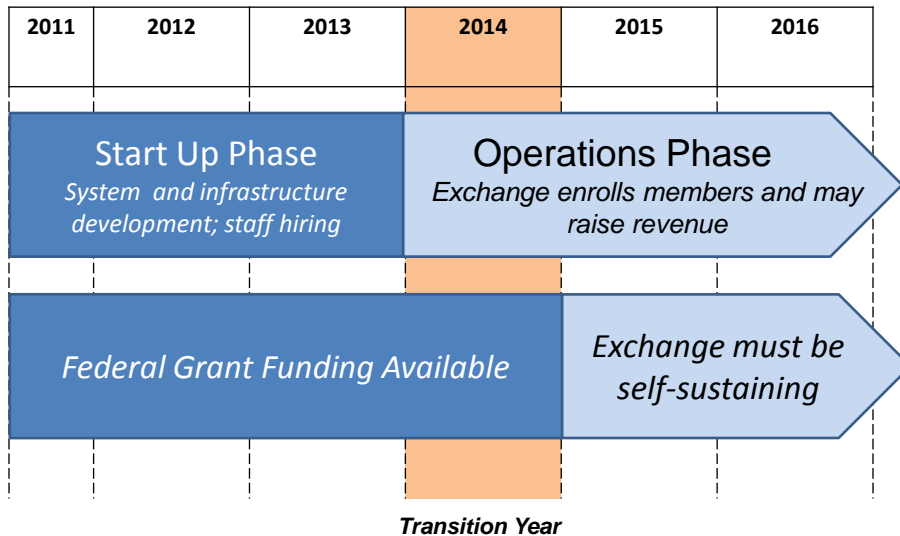
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Exchange Financial Timeline



Balancing Revenue and Expenses



- Level of expense creates revenue needs that must be sustained starting in 2015
- Expenses composed of fixed and variable costs (affected by enrollment volume & IT Build)
- The Exchange exerts control over expenses through its decisions around size, structure, and level of functionality
- The level of expense supported by potential revenue streams will be limited by market factors
- The Exchange will need to design infrastructure and manage expense levels to fit within revenue limitations
- Financing methods differ, but useful target amount is 3% of QHP premiums

Key Revenue and Expense Drivers

Market Factors

- Scale of Potential Market
- Take Up Rate by Segment
- Premium Level by Segment
- Product Selection Mix
- Producer/Navigator Role and Compensation

Admin and Staffing

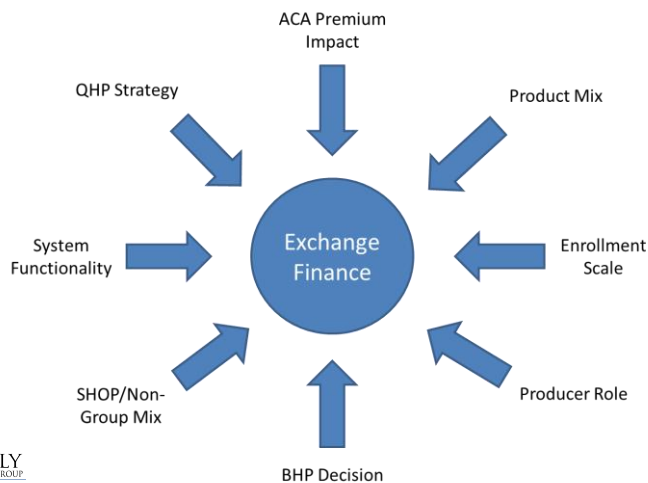
- FTE's by Functional Area
- Salary Scale & Benefit Level
- Staffing Ramp-up Schedule
- Professional Support
- General & Admin Costs

IT Systems

- Development, Configuration, and Maintenance of Core IT Systems
- Eligibility
- Enrollment & Billing
- Website
- Call Center

Complexity and Dependencies

Exchange financing depends on multiple variables, including policy decisions made by the Exchange (or other agencies) as well as external factors not under the control of the Exchange.



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Enrollment & Premium Overview

- Conventional approach for financing Exchange is assessment on QHP premiums
 - Goal of Committee is to explore all revenue options
- Revenue in this model is a function of enrollment (member months) and average premium
 - Similar concept whether QHP or broad-based fee
- Enrollment also affects expenses by increasing absolute variable costs and reducing per-member expenses by spreading fixed costs



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Potential Exchange Enrollment

“Core” Enrollment Groups N=412K

Secondary Enrollment Groups N =798K

Maryland Insurance Coverage by Income Group, 2009 ('000's)¹

	<139% FPL	139 – 200%	201% - 400	400%+	Total
Employer	260	166	571	2,068	3,065
Individual	45	52	22	61	181
Medicaid	319	93	0	0	412
Other Public	0	39	87	0	126
Uninsured	333	135	137	66	671
Total	999	444	743	2,288	4,474

Employer-Sponsored Coverage Detail by Segment, 2009 ('000's)²

ESI Segment	Small Group	Large Group	Self-Insured	Total
2009 Members	398	922	1,745	3,065



Sources: (1) Kaiser Family Foundation/U.S. Census Bureau, 2009

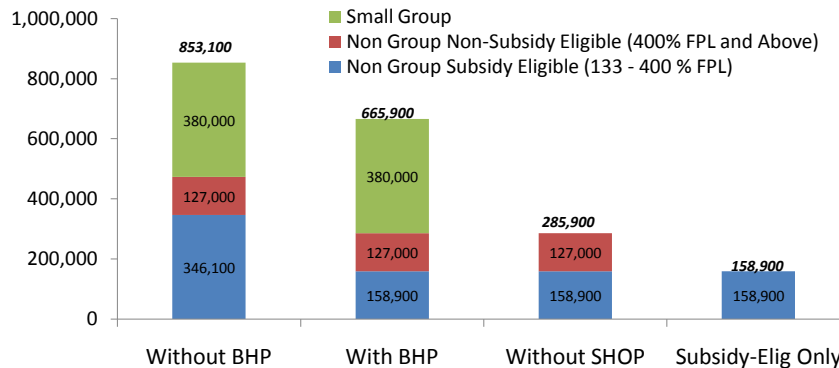
(2) Maryland Insurance Administration, Kaiser Family Foundation/U.S. Census Bureau, 2009

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Potential Exchange Enrollment (cont.)

The size of potential enrollment will be affected by policy decisions, such as whether to pursue a BHP, whether to pursue a SHOP Exchange, and where to focus outreach and marketing efforts.

Universe of Potential Enrollment Under Different Policy Scenarios

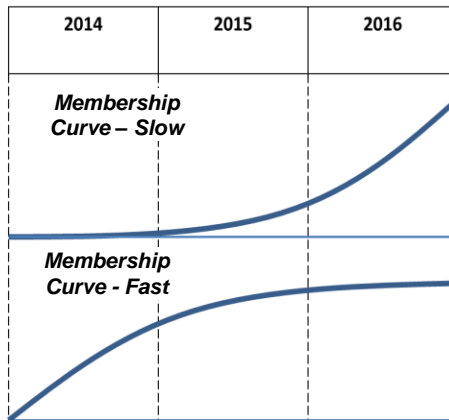


Sources: (1) Kaiser Family Foundation/U.S. Census Bureau, 2009; Maryland Insurance Administration, 2009

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Ramp-Up Speed

Ramp-up speed is a critical consideration for fee-based revenue models, and also affects Exchange market position vis. QHPs, vendors, and other actors.



Slow Ramp-Up

- Reaches same ultimate membership total, but reduces member month count during first years of operations

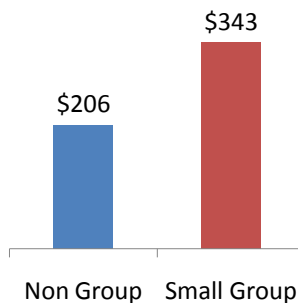
Fast Ramp-Up

- Creates scale early in the program, strengthening fee-based revenue base
- Provides Exchange stronger market position for vendor and QHP procurements

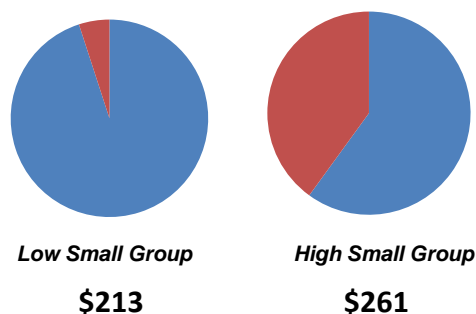
Premium Levels – Segment Mix

Average premium level for the Exchange will be sensitive to population mix, including member demographics, product selection, and relative weight of small and non group enrollment.

Premium Level by Segment, 2010



Average Monthly Premium Based on Mix Scenario (Illustration Only)



* Source: Maryland Insurance Administration, 2010. Illustration uses 2010 premium levels. Absolute level and premium relativity between segments may differ in 2014 based on market impact of ACA implementation.

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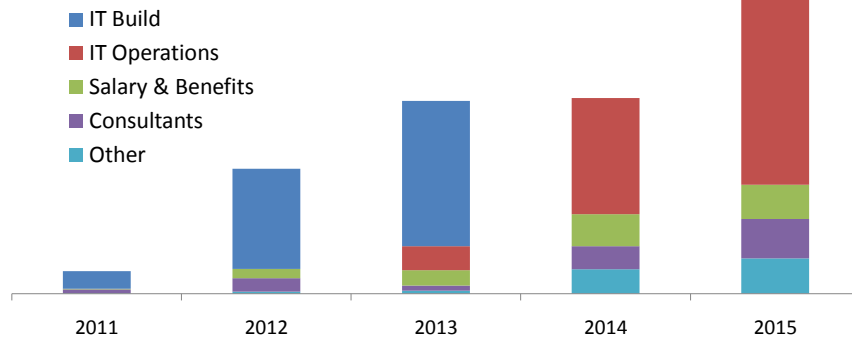
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Administrative Cost Overview

- Main expense items are IT systems, internal staffing and consulting (during start-up phase)
- Once operational, main drivers of cost will be membership growth, number of QHP's with which to interact, and phase 2 of IT build
- Critical challenge for Exchange will be transitioning from federal funding in 2014 to self sustainability in 2015
 - Need a few "safeguard" strategies to manage revenue and enrollment uncertainty

Timing of Expenses

Example Exchange Expense Distribution by Year
(Illustration Purposes Only)



- *IT Build, Consulting, Staff Costs dominate expenses in 2012 and 2013*
- *Marketing & Outreach become important starting in 2013 and 2014*
- *Operational Systems dominate in 2014 and 2015 as membership ramps up*

IT Development and Operations

- IT systems will account for roughly 60-70% of exchange costs during both start-up and operations
 - Eligibility, Enrollment/Billing, Website and Online Tools, Customer Service
- Cost impact of IT driven by functionality deployed, the ability and/or desire to leverage existing systems, and design features of the exchange
- Systems developed with federal funding will need to be supported by the state starting in 2015
- Developing flexibility and scalability into contracts and systems will be key to managing uncertainty in enrollment and revenue

Staffing Plan

- Salaries & Benefits will account for roughly 15-20% of exchange expenses
- Variety of approaches exist to staff exchange
 - Some states more comfortable staffing up earlier
 - Others tend to rely more on contracted professional support to manage uncertainty
- In general, reliance on external professional support decreases over time as certainty increases
- Growth in membership scale primarily absorbed by IT systems; marginal impact on staffing focused on areas sensitive to volume (finance, sales, appeals, etc.)



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Staffing Plan (cont.)

- Key policy decisions will impact staffing costs:
 - Staff ramp up speed
 - Internal vs. external
 - Public vs. private salary and benefits package



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Other Expenses

- Accounting/Reporting systems
- Outreach & Marketing, including Navigators
- Appeals
- Broker Compensation (is an expense pass-through that drives revenue requirements)
- Professional Services
- Reinsurance & Risk Adjustment (depending on decisions of state)
- Data warehousing needs
- General Administrative (Rent, Equipment)



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Contact Information

www.wakely.com

Patrick Holland
patrickh@wakely.com
 617 939 2002

James Woolman
jamesw@wakely.com
 617 460 1093